

**Town of Bethany Beach
Budget and Finance Committee Meeting Minutes
January 16, 2014**

The Bethany Beach Budget and Finance Committee held a meeting on Thursday, January 16, 2014 at 1:00 p.m. at the Bethany Beach Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE 19930.

Members present: Jerry Dorfman, who presided; Denise Boswell; Joseph Healy; Patrick McGuire (arrived late); Jerry Morris; and Philip Rossi.

Excused member: Martin Decre.

Also present: Janet Connery, Finance Director; Cliff Graviat, Town Manager; Mayor Tony McClenny; Council members, Jack Gordon, Chuck Peterson, Lew Killmer and Margaret Young; Lindsey Good, Administrative Secretary; and interested members of the public.

Call to Order

Mr. Dorfman called the meeting to order at 1:00 p.m.

Approval of Agenda

Ms. Boswell made a motion to approve the agenda. Mr. Healy seconded the motion and it was unanimously approved.

Approval of Minutes from October 24, 2013

After a couple of changes, Mr. Healy made a motion to approve the minutes as amended. Seconded by Mr. Morris, the motion was unanimously approved.

Review Results of the 3rd Quarter of FY 2014

Ms. Connery reported that the condition of the revenue has had very little change since the Committee reviewed it at the previous meeting in October. She updated the following revenues:

- Transfer tax receipts were \$57,000 over-budget at the end of December. They have reached \$627,000 as of this morning.
- Rental tax collections were \$38,000 over budget at the end of December. As of this morning, \$1,043,000 has been collected.
- Building permits were very busy this year. At the end of December, they were over budget by \$143,000. The revenue is at \$370,000 as of this morning. Small projects such as additions to homes and demolition projects were a big factor in the revenue collected.

The General Fund is expected to end the year at least \$250,000 over budget in revenue. Sanitation and Water Fund revenues should be slightly over budget.

Operating costs are as expected for this time of year. At three quarters through the year, the Town has spent 76.5% of its operating budget.

By the end of the year, operating costs should be three percent (3%) to five (5%) under budget.

Discuss the Draft Budget for 2015

Mr. Gravier provided the following report:

The Town uses the Municipal Cost Index (MCI) as a way to compare its results to those of other governments. For the past five years, the MCI has increased as average of two percent (2%) per year while the Town has been general costs increase 0.7%. The 0.7% increase is a result of basic responsibilities of the Town and enhancements, such as two new fulltime employee positions (Entertainment Director and I.T. Manager), additional lifeguard staffing, improving training of seasonal police officers, and drainage studies.

He addressed the proposed budget for FY 2015, and explained that it includes an \$112,000 increase in the Stormwater operational budget and \$100,000 for Stormwater capital projects. The Public Works Director, Brett Warner, hopes to help improve the drainage issues, but they are waiting to receive reports from the Army Corps of Engineers before beginning some Stormwater projects, and these funds would allow the Town to begin many of the projects. The draft budget included \$550,000 for a Gibson Avenue drainage project but this is being removed from the budget for now as further information is needed, including a more complete plan for the park land before the costs are established.

The budget for the Bandstand and Entertainment is increasing \$39,000 in the operating budget and includes \$20,000 in the capital budget. These increases will be used for upgrades to the Bandstand equipment to enhance lighting and sound during performances.

Ms. Connery provided an overview of the changes to revenue and operating budgets, and then reviewed the capital budget.

Revenue Sources

Ms. Connery referenced Page 4 of the Budget Draft and explained that several revenues have been adjusted based on revised estimates, not rate changes. In this draft, the General fund revenue increases by \$74,000, which is an increase of 1.3%. The most significant changes are property tax revenue increasing, rental tax revenue increase, building permit fee increase, and a reduction in the parking revenue budget.

Ms. Connery explained that property tax revenue is increasing \$17,000 from higher assessments. The property tax assessment base increases an average of one percent (1%) per year from construction projects, so this is normal growth in this revenue and not a tax rate change. The Rental tax revenue budget is \$50,000 higher since this revenue generally increases three percent (3%) to four percent (4%) each year as realtors adjust the rates they charge. The Town has increased the budget for building permits from \$200,000 to \$250,000 for FY 2015. Since building permits have averaged over \$300,000 per year for the past nine years, the \$200,000 seemed to be overly conservative. The Parking revenue budget has been reduced to roughly the average of the past two summers. An increase in the revenue next summer is being hoped for, but it is not being depended on.

Ms. Connery emphasized that the revenue budget is still conservative with transfer taxes and building permits budgeted at less than the Town has received in recent years. She noted that this

budget does not include any of the revenue that is hoped to be received from the proposed hotel property purchase and construction since the project is not completely certain and the time timing is not known.

Operating Budget

The operating budget is shown on Page 6 of the Budget draft.

Ms. Connery explained that this budget allows for three percent (3%) raises for all employees. Total Town-wide personnel costs are increasing \$62,000 (1.6%). More than half of this is caused by increases to the cost of worker's compensation and unemployment insurance.

In the General Fund, the proposed operating budget increase is \$214,000 or 4.5%. More than half of the increase is in the Stormwater Management department, which is increasing \$112,000. Raising the budget on contracted services and supplies will allow the Town to complete small and medium sized drainage improvement projects throughout the town. The second largest increase is in Bandstand and Entertainment, which is increasing \$39,000. This increase will allow for continued improvements to sound and lighting, replacement of the military bands that cancelled last summer, and improved holiday events. All other changes to the General Fund budget add up to \$63,000 or 1.3%.

The proposed Sanitation Fund budget is only increasing by \$1,000. The proposed Water Fund operating budget is increasing by \$47,000 or 5.3%. \$32,000 of this is in repair and maintenance of building and grounds to allow for the repainting of the filter gallery. The repainting of the Water Plant is done every three to five years.

Capital Budget

The Capital and Debt Budget is detailed on Page 9 of the Budget draft.

Ms. Connery reported that in the General Fund the main projects are: 1.) \$100,000 for other drainage projects. 2.) \$200,000 for annual street repaving. A total of \$165,000 is budgeted for replacements including a skid steer, a pickup truck, beach access, a utility vehicle and the bandstand sound and lighting system.

The Sanitation capital budget is \$170,000 to replace a 2003 rear loading trash truck.

The Water Fund Capital Budget includes the following expenses: 1.) \$50,000 for equipment replacement as needed. 2.) \$55,000 for the replacement of a pickup truck. 3.) \$50,000 for the distribution of system repairs. The Water Department Debt includes the final payment on the 1989 Water Plant bond issue in October and the first payment of principal on the water tower in December. A water rate comparison was provided to the Committee, and it was noted that the Town's rates are comparatively low.

Questions and Discussion

Ms. Boswell referenced Page 4 of the Budget draft, and questioned why the Fourth of July Parade revenue was declining from last year to this year and will continue to decline next year. Mr. Gravier explained that last year's revenue was from the Committee transferring to the Town

the balance it had in its bank account, which had accumulated over several years. Mr. Chuck Peterson, Chair of the Fourth of July Parade Committee, added that since the Committee is not soliciting for donations he does not expect to receive as much as it did in the prior years. However, the Committee will receive funds from the 5K race and t-shirt sales that help support the parade.

Mr. Morris asked about cost decreases in telephone and credit card fees. Ms. Connery explained that we are replacing the Town Hall telephone system this month, which will quickly pay for itself in costs savings since the new technology requires fewer phone lines. Regarding the credit card fees, she explained that she had been working with area banks and the Town will be changing our processor, which should save around \$25,000 per year.

Mr. Morris asked if the Town ever considers leasing trash trucks rather than purchasing them. Mr. Gravier replied that the cost was not favorable when we last compared. Mr. Peterson added that lease costs are based on vehicle value at the end of the lease, and trash trucks do not hold their value as well as luxury cars.

Mr. Morris asked about the shift in salary from seasonal to part-time in Streets & Parks. Ms. Connery explained that since the Nature Center is now open year-round, the Town is changing the employee's classification in the budget to better match their work schedule.

Mr. Healy gave a report on his review of the Town's three funds:

He believes the Sanitation Fund will show operating losses of \$16,000 in FY 2015 and \$40,000 in FY 2016. His calculations support a 13.5% rate increase for FY 2017. He figures that the Water Fund will show an operating loss of \$55,000 in FY 2015 and \$155,000 in FY 2016. His calculations support considering a 25% rate increase for FY 2016. In the General Fund, he supports a property tax increase of half a cent.

Ms. Connery reported on the handout titled "Revenue and Cost comparison for discussion on January 16, 2014", which shows four different analysis of the Town's financial condition and this budget for discussion.

The first is a comparison of summer verse year round revenues and costs. This shows year round revenues fall \$122,000 short of covering year round costs. Revenue from the summer season is covering summer costs.

The second block shows how the revenue increases in this proposed budget compares to the cost increases. It shows that the General Fund operating budget is increasing \$140,000 more than its revenue budget. The water fund has \$47,000 in cost increase with no increase in revenue.

The third section is to show if the revenue budget is enough to cover the full cost of operations, which includes depreciation of our capital assets. It shows that the General and Water Funds are both two percent (2%) short of fully covering budgeted costs.

The final section shows the capital reserve status of each fund in comparison to the minimum amount recommended by the Town's Fund Balance policy. This policy is just a guideline of when the Committee and Council should consider making changes to maintain appropriate reserve levels. With the \$550,000 drainage project out of the budget the General Fund will be slightly above the recommended minimum.

Further Discussion

Mr. Healy said that he believes the budget for parking revenue may be too conservative. He also has concerns about funding for possible upcoming projects such as the park, the boardwalk and water pipes. He said he feels it is very important that the Committee make sure that the Town's reserve levels are satisfactory, which he thinks they are.

Mr. Gravier addressed parking revenue, stating that as compliance increases enforcement in the form of tickets decreases. He mentioned some problems with staffing that are being addressed.

Mr. Killmer said he has been active on a sea level rise committee and that changes to FEMA flood maps increase the Town from fifty percent (50%) to eighty percent (80%) in the flood zone. He suggested considering forming an enterprise fund for Stormwater and revenue increases to support it. Mr. Dorfman is suggesting adding an agenda item to the next meeting to discuss this further.

Ms. Boswell asked about possible grant funds for drainage. Mr. Gravier responded that most state money goes to address the pollution in Stormwater runoff and not improving drainage. He added that drainage improvements for Pennsylvania Avenue would likely be \$2 million for the north side and another \$2 million for the south side. For a project of this size we would likely seek a bond issue, unless the Army Corps of Engineers provides funding for a project they recommend. Mr. Peterson added that FEMA offers avoidance funds but only for individual property owners.

Mr. Morris asked about the cost of a Town-wide property tax assessment. He was answered that the cost would likely be around \$200,000 for limited benefit. Mr. Killmer contributed that on a reassessment 1/3 have higher taxes, 1/3 have lower taxes and 1/3 stay the same so there is little benefit to the Town since no additional revenue would be generated.

Mr. McGuire commented that since total properties assessed grows one percent (1%) per year when the Town does nothing, so increasing the property tax rate by half a cent every two to three years allows the Town to keep up with cost inflation. Ms. Connery added that each half a cent provides around \$50,000, is a three percent (3%) increase and would cost less than fifteen dollars (\$15) to the majority (62%) of the Town's property owners. The Committee supported a consideration for a half a cent increase.

Mr. McGuire commented that he was surprised how many property owners use large amounts of water. He is concerned about waste and thinks that high residential users should pay premium rates especially since the Town needed to construct a water tower to meet the July 4th demand. Ms. Connery commented that the tiered rate method we use is fairly standard and meant to give a break to low users more than penalize high users.

Mr. Gordon mentioned that he thought the transfer tax budget was too low at \$550,000 and suggested increasing it to \$600,000. The Committee confirmed that they would like to keep the revenue budget conservative by not increasing its estimates for transfer taxes, building permits and parking. Ms. Boswell commented that construction costs are increasing, which may reduce construction projects.

Trolley fees were mentioned in that they are only covering around ten percent (10%) of trolley costs so an increase in the fee might be appropriate. This has been suggested, and rejected, before but could be added to an upcoming Council workshop.

Schedule of Future Meetings

The next meetings are scheduled for the following dates:

- Budget and Finance Committee meeting: February 20th, 2014 at 10:00 a.m.
- Town Council and Budget Committee Public Hearing: March 3rd, 2014 at 10:00 a.m.
- Budget and Finance Committee meeting (if necessary): March 3rd, 2014 at 11:00 a.m.

Motion to Adjourn

Mr. Healy made a motion to adjourn the meeting. The motion was seconded by Mr. Rossi and unanimously approved. The meeting was adjourned at 2:28 p.m.